

UINTAH SPECIAL SERVICE DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended December 31, 2005

**UINTAH SPECIAL SERVICE DISTRICT
FINANCIAL STATEMENTS
TABLE OF CONTENTS**

	<u>PAGE</u>
FINANCIAL SECTION	
Independent Auditors' Report	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
• Statement of Net Assets	9
• Statement of Activities	10
Fund Financial Statements:	
• Balance Sheet – Governmental Funds	11
• Reconciliation of the Balance sheet of Governmental Funds to the Statement of Net Assets	12
• Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
• Reconciliation of the Statement of Revenues, Expenditures, And Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund	27

**UINTAH SPECIAL SERVICE DISTRICT
FINANCIAL STATEMENTS
TABLE OF CONTENTS**

	<u>PAGE</u>
COMPLIANCE AND MANAGEMENT SECTION	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	28
Independent Auditors' Report on State Legal Compliance Based on an Audit of Financial Statements Conducted in Accordance With <i>Government Auditing Standards</i>	30
Auditors' Findings and Recommendations	32
Status of Prior Year Audit Findings	33

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INDEPENDENT AUDITORS' REPORT

To the Administrative Control Board
Uintah Special Service District
Vernal, Utah

We have audited the accompanying financial statements of the governmental activities, and each major fund of Uintah Special Service District, a component unit of Uintah County, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Uintah Special Service District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Uintah Special Service District, as of December 31, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2006 on our consideration of Uintah Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 27, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Caldwell Counts & Co. LLP

Vernal, Utah
June 7, 2006

UINTAH SPECIAL SERVICE DISTRICT

Management's Discussion and Analysis

This section of Uintah Special Service District's (District) annual financial report presents management's discussion and analysis of the District's financial performance during the year ending December 31, 2005

Financial Highlights

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information, including this Management's Discussion and Analysis, and the statement of revenues, expenditures and changes in fund balance – budget and actual for the general fund.

Government-wide Financial Statements

One of the most important questions asked about the District's finances is, "is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

All of the District's services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations.

We describe the relationship (or differences) between the government-wide financial statements and the related fund financial statements in a reconciliation that follows each fund financial statement. These differences occur because of the differences in accounting methods used for the two types of statements and the difference in focus: long-term verses short-term.

UINTAH SPECIAL SERVICE DISTRICT
Management's Discussion and Analysis

The District As A Whole

The District's net assets increased \$7.5 million, from \$11.0 million the prior year to \$18.5 million at the end of 2005. (See Table 1.)

Table 1
Net Assets

	Governmental Activities		Total Change 2005-2004
	2005	2004	
Current and other assets	\$ 19,969,707	\$ 12,661,029	\$7,308,678
Capital assets	57,750	35,693	22,057
Total Assets	20,027,457	12,696,722	7,330,735
Current and other liabilities	377,365	316,240	61,125
Long-term liabilities outstanding	1,065,000	1,333,000	(268,000)
Total liabilities	1,442,365	1,649,240	(206,875)
Net assets:			
Invested in capital assets	57,750	35,693	22,057
Restricted	1,014,113	814,242	199,871
Unrestricted	17,513,229	10,197,547	7,315,682
Total net assets	\$ 18,585,092	\$ 11,047,482	\$7,537,610

The revenue from mineral lease funds increased \$4.6 million, as compared to the prior year. (See Table 2.) The District received grant funding for highway and bridge construction totaling over \$1.9 million. The District increased its expenditures for road and bridge construction by over \$1.9 million, funded by capital grants, and \$2.7 million funded from general revenues. The District's purpose is to construct road and other transportation improvements within Uintah County, Utah. Since the roads and other improvements belong to Uintah County or one of the county's cities these capital improvements do not result in assets belonging to the District; but represent expenditure of the District's assets.

UINTAH SPECIAL SERVICE DISTRICT
Management's Discussion and Analysis

Table 2
Changes in Net Assets

	Governmental Activities		Total Change
	2005	2004	2005-2004
Revenues:			
Program revenues:			
Capital Grants	\$ 1,977,040	\$ 23,761	\$ 1,953,279
Charges for services	-	39,295	(39,295)
General revenues:			
Mineral Lease Funds	13,150,888	8,532,642	4,618,246
Interest Income	497,913	151,467	346,446
Gain (loss) on sale of capital assets	3,000	-	3,000
Miscellaneous	203	29	174
Total revenues	15,629,044	8,747,194	6,881,850
Expenditures:			
Highways & public improvements			
Program Expenditures			
Miscellaneous	-	295	(295)
Transportation systems construction and maintenance	1,977,040	62,761	1,914,279
General expenditures			
Compensation & benefits	81,881	75,068	6,813
Insurance	15,883	12,329	3,554
Membership dues	8,812	5,199	3,613
Miscellaneous	1,539	2,858	(1,319)
Occupancy	10,716	10,600	116
Office expenses	10,293	8,286	2,007
Professional fees	12,553	8,787	3,766
Depreciation	4,533	3,959	574
Transportation systems construction and maintenance	5,940,659	3,215,450	2,725,209
Interest on long-term liabilities	27,525	35,490	(7,965)
Total expenditures	8,091,434	3,441,082	4,650,352
Increase in net assets	7,537,610	5,306,112	2,231,498
Beginning net assets	11,047,482	5,741,370	5,306,112
Ending net assets	\$ 18,585,092	\$ 11,047,482	\$ 7,537,610

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 11) reported a *combined* fund balance of \$19.5 million. That reflects a *combined* net increase in fund balances of \$7.3 million. (See the statement of revenues, expenditures, and changes in fund balances on page 13.)

UINTAH SPECIAL SERVICE DISTRICT
Management's Discussion and Analysis

The general fund balance increased \$6,886 to \$26,172.

The capital project fund balance increased \$7.3 million to \$18.9 million. This balance reports funds available for completion of capital projects in future periods. The District approved two road realignment/design projects, six road construction projects and two multiple bridge replacement projects.

During 2005 the District's major projects, and the amounts expended were as follows: 2500 West Design Engineering \$118,356, Dry Fork-2500 N to Merkley Park \$605,821, 3500 and 1500 West Projects* \$1,191,555, Ballard-1000 N/2000 S Projects \$302,024, County-Wide Chip and Seal* \$1,279,521, 1500 South Reconstruction \$1,718,872, Lapoint to Gusher Highway* \$2,162,360, Willowcreek Bridges \$39,046, and Steinaker Bridges \$138,875, Pariette Dugway Design* \$30,157. (*These projects carry over into 2006)

The debt service fund balance increased \$18,400 reflecting additional amounts accumulated in the sinking and reserve funds. As of the end of the year, the district had accumulated the maximum required amounts in the reserve funds.

General Fund Budgetary Highlights

The original 2005 general fund budget, adopted in December 2004, was not amended during the year. Actual funds expended were within appropriated amounts. (See the statement of revenues, expenditures and changes in fund balance – budget and actual General Fund on page 27.)

Capital Asset and Debt Administration

During 2005, the District sold its pickup truck and purchased an SUV for transportation of personnel. (See Note 6 on page 21 for a summary of changes in capital assets.)

The District paid the annual bond payments that matured during the year. The balance of the District's debt will mature and be retired over the next four years.

UINTAH SPECIAL SERVICE DISTRICT

Statement of Net Assets

December 31, 2005

	Governmental Activities
Assets	
Cash and investments	\$ 14,638,266
Receivables	
From other governments	4,247,037
Restricted assets	
Cash and investments	630,851
Project escrow accounts	383,262
Lease purchase contract	70,291
Capital Assets	
Land	30,675
Furniture and equipment, net of depreciation	27,075
Total assets	<u>20,027,457</u>
Liabilities:	
Accounts payable	351,958
Accrued interest payable	23,788
Accrued compensated absences	1,619
Noncurrent liabilities:	
Due within one year	276,000
Due in more than one year	789,000
Total liabilities	<u>1,442,365</u>
Net Assets:	
Invested in capital assets	57,750
Reserved for:	
Debt service	630,851
Construction projects	383,262
Unrestricted	17,513,229
Total net assets	<u>\$ 18,585,092</u>

The notes to the financial statements are an integral part of this statement.

UINTAH SPECIAL SERVICE DISTRICT
Statement of Activities
Year Ended December 31, 2005

Functions	Expenses	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Total Governmental Activities
Governmental activities:			
Highways and public improvements			
Compensation and benefits	\$ 81,881		\$ (81,881)
Insurance	15,883		(15,883)
Membership dues	8,812		(8,812)
Miscellaneous	1,539		(1,539)
Occupancy	10,716		(10,716)
Office expenses	10,293		(10,293)
Professional fees	12,553		(12,553)
Depreciation	4,533		(4,533)
Transportation systems construction and maintenance	7,917,699	\$ 1,977,040	(5,940,659)
Interest on long-term liabilities	27,525		(27,525)
Total special service district	<u>\$ 8,091,434</u>	<u>\$ 1,977,040</u>	<u>(6,114,394)</u>
General revenues:			
Mineral lease funds			13,150,888
Interest income			497,913
Miscellaneous			3,203
Total General Revenues			<u>13,652,004</u>
Change in net assets			7,537,610
Net assets - beginning			<u>11,047,482</u>
Net assets - ending			<u>\$ 18,585,092</u>

The notes to the financial statements are an integral part of this statement.

UINTAH SPECIAL SERVICE DISTRICT
Balance Sheet
Governmental Funds
December 31, 2005

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
Assets				
Cash and investments	\$ 32,023		\$ 14,606,243	\$ 14,638,266
Receivables				
From other governments			4,245,009	4,245,009
Restricted assets				
Cash and investments		\$ 630,851		630,851
Project escrow accounts			383,262	383,262
Lease purchase contract			70,291	70,291
Total assets	\$ 32,023	\$ 630,851	\$ 19,304,805	\$ 19,967,679
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 5,851		\$ 346,107	\$ 351,958
Deferred revenue			70,291	70,291
Total liabilities	5,851	-	416,398	422,249
Fund Balances:				
Reserved for:				
Debt service		\$ 630,851		630,851
Construction Projects			383,262	383,262
Unreserved:				
Undesignated, reported in:				
General fund	26,172			26,172
Capital projects fund			18,505,145	18,505,145
Total fund balances	26,172	630,851	18,888,407	19,545,430
Total liabilities and fund balances	\$ 32,023	\$ 630,851	\$ 19,304,805	\$ 19,967,679

The notes to the financial statements are an integral part of this statement.

UINTAH SPECIAL SERVICE DISTRICT

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets December 31, 2005

Total fund balances for governmental funds	\$ 19,545,430
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Total net assets reported for governmental activities in the statement of net assets is different because:

The proceeds from the sale of capital assets on a contract to be received in future years are not recorded as current income in the governmental funds, but are deferred until received.

70,291

Interest on long-term contracts receivable is not accrued in governmental funds, but rather is recognized a income when due.

2,028

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	30,675
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Furniture and equipment, net of \$19,818 accumulated depreciation		27,075
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27,075

57,750

Interest on long-term debt (revenue bonds) is not accrued in governmental funds, but rather is recognized as an expenditure when due.

(23,788)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Revenue bonds payable	\$	(1,065,000)
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Compensated absences payable		(1,619)
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(1,619)

(1,066,619)

Total net assets of governmental activities	<u>\$ 18,585,092</u>
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The notes to the financial statements are an integral part of this statement.

UINTAH SPECIAL SERVICE DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended December 31, 2005

	Major Funds			Total Governmental Funds
	General	Debt Service	Capital Projects	
Revenues:				
Intergovernmental				
Mineral Lease Funds	\$ 175,000		\$ 12,975,888	\$ 13,150,888
Highway Grants			1,977,040	1,977,040
Interest Income		\$ 17,215	482,667	499,882
Miscellaneous	29		68,418	68,447
Total revenues	175,029	17,215	15,504,013	15,696,257
Expenditures:				
Current				
Highways & public improvements				-
Compensation & benefits	81,757			81,757
Insurance	15,883			15,883
Membership dues	8,812			8,812
Miscellaneous	1,539			1,539
Occupancy	10,716			10,716
Office expenses	10,293			10,293
Professional fees	12,553			12,553
Capital outlay	26,590		7,917,699	7,944,289
Debt service				-
Principal retirement		268,000		268,000
Interest		33,325		33,325
Total expenditures	168,143	301,325	7,917,699	8,387,167
Excess (deficiency) of revenues over (under) expenditures	6,886	(284,110)	7,586,314	7,309,090
Other financing sources (uses):				
Transfers		302,525	(302,525)	-
Sale of capital assets			3,000	3,000
Total other financing sources (uses)	-	302,525	(299,525)	3,000
Net change in fund balances	6,886	18,415	7,286,789	7,312,090
Fund balances - beginning	19,286	612,436	11,601,618	12,233,340
Fund balances - ending	\$ 26,172	\$ 630,851	\$ 18,888,407	\$ 19,545,430

The notes to the financial statements are an integral part of this statement.

UINTAH SPECIAL SERVICE DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2005

Net change in fund balances - total governmental funds	\$ 7,312,090
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Amounts reported for governmental activities in the statement of activities are different because:

The proceeds from the sale of capital assets on a contract to be received in future years are recorded as current income in governmental funds as payments are received. The full gain or loss on the sale is recorded in the statement of activities in the year of sale.

Collections received from prior year sale of capital assets.	(68,244)
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Governmental funds report interest income from long-term contracts receivable when it becomes due. In the statement of activities such income is accrued and reported as it is earned.

	(1,969)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of \$1000 or more are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The differences are summarized as follows:

Depreciation expense	\$ (4,533)	
Cost of capitalized assets purchased	26,590	22,057

Governmental funds report repayments of revenue bond principal and the related interest as expenditures when the payments are due. In the statement of activities interest on revenue bonds is reported as expense as it accrues, regardless of when it is due. Bond principal payments are reported as reductions to liabilities in the statement of net assets. The net effect of these differences in the treatment of revenue bonds and related interest is as follows:

Revenue bond principal repaid	\$ 268,000	
Interest expense - adjustment to accrual basis	5,800	273,800

Governmental funds report compensation for employee absences when such amounts become due. In the statement of activities that expense is accrued as the benefit is earned by employees.

Compensated absences - adjustment to accrual basis	(124)
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Change in net assets of governmental activities	<u>\$ 7,537,610</u>
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The notes to the financial statements are an integral part of this statement.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Uintah Special Service District (District) was created November 21, 1988 by order of the Uintah County Board of Commissioners, pursuant to the provisions of the Utah Special Service District Act, Chapter 23, Title II, Utah Code Annotated (1953) as amended, and article XIV, Section 8 of the Constitution of Utah. The purpose of the District is to construct, repair and maintain roads within its service area, which includes all of the unincorporated areas of Uintah County. The District has also provided service within the incorporated cities in Uintah County. No potential component units have been identified for inclusion in these financial statements.

Uintah Special Service District is a component unit of Uintah County because of its financial accountability to the County. A part-time Administrative Control board, composed of five members appointed by the Uintah County Commissioners, and a full-time executive office manager manage the District. The Administrative Control Board selects the projects to be completed by the District from a prioritized list received annually from the Uintah County Commissioners.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the District as a whole. Individual funds are not displayed. All of the District's operations are reported as governmental activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. The District's activities are confined to a single function: construction of highways and public improvements. Program revenues include: (1) charges for services which report rents and other charges to users of the District's services or assets; (2) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets, including roads and other transportation infrastructure belonging to other governments within the District's service area. Mineral lease funds and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental funds. All three of the District's funds are presented as major funds.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to governmental funds by GASB.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). The District's operations do not include any internal activities with the exception of transfers between funds, which are eliminated by direct offset. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Mineral lease funds revenues are recognized in the year for which they are allocated to the District while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for revenue bond principal and interest which are reported as expenditures in the year due.

Major revenues susceptible to accrual include mineral lease funds and government grants. In general, other revenues are recognized when cash is received.

D. Fund Types and Major Funds

The District reports the following major governmental funds:

- The **general fund** is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The **capital projects fund** accounts for the construction of major capital projects.
- The **debt service fund** accounts for the accumulation of financial resources for the payment of principal and interest on the District's long-term debt.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

E. Cash and Investments (See note 3, also.)

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surpluses are maintained in a cash and investment pool and allocated to each fund based on period-end deposit and investment balances, except for the sinking and reserve funds, which are kept in a required separate account within the debt service fund. The District also has certain funds on deposit in escrow accounts with the Utah Department of Transportation (UDOT). These funds represent the unexpended portion of the District's estimated share of expenses for federal highway funds projects administered by UDOT.

F. Flow Assumptions for Restricted Resources

Whenever the District has the option of using either restricted or unrestricted resources to make certain payments (such as capital construction costs being financed partially from restricted grants and partially from the District's own funds) the District's policy is to use restricted resources first.

G. Capital Assets and Depreciation

The District's property, furniture and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The District owns no infrastructure assets. The District capitalizes assets with a cost of \$1,000 or more. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The useful lives estimated for depreciable assets are: furniture and office equipment 3-10 years, and automotive equipment 5 years.

H. Long-term Debt

Outstanding debt is reported in government-wide financial statements as liabilities. However, the governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period, and the payment of matured bond principal and interest as expenditures in the year they are due.

**Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005**

I. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

I. Compensated Absences

Employees are granted compensation for days absent from work due to vacations, sickness, or other personal matters, in varying amounts depending on tenure with the District. A maximum of 160 hours of absent time that has not been used by the end of the year can be carried forward to the next year. Compensated absences are reported as accrued in the government-wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

2. BUDGETARY INFORMATION

The Uintah Special Service District follows the budgetary practices and procedures required by Utah State law. These requirements are summarized as follows:

- A formal budget is adopted for all governmental funds. The budget as a complete plan that identifies all estimated revenues and all appropriations for expenditure for the year. The budget must balance, that is, estimated revenues and other financing sources must equal appropriated expenditures. Budgets are adopted on the basis of accounting used for reporting purposes in the governmental funds financial statements. The legal level of budgetary control is the fund level.
- The executive office manager submits to the Administrative Control Board, a proposed operating budget for the fiscal year beginning January 1.
- The Board discusses and approves the budget and sets a date for a public hearing on the proposed budget.
- A public hearing is held to obtain taxpayer comments and the budget is adopted.
- The Board can transfer budgeted amounts between line items by resolution, but any action that increases or decreases the total budget must be approved by resolution only after public hearing.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

3. DEPOSITS AND INVESTMENTS (See note 1 E, also.)

Deposits and investments for local governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the District's exposure to various risks related to its cash management activities.

A. Custodial Credit Risk

Deposits—Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the District to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2005 the carrying amount of the District's deposits was \$32,290 and the bank balance was \$205,175. Of the bank balance, \$105,175 was uninsured and uncollateralized.

B. Credit Risk

Investments—Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act.

The District is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

As of December 31, 2005 the District had investments of \$15,236,827 with the PTIF. The entire balance had a maturity of less than one year. The PTIF pool has not been rated.

C. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

4. RECEIVABLES AND DEFERRED REVENUE

Uintah Special Service District sold certain construction equipment to Uintah County through a lease-purchase agreement dated January 14, 2002. The agreement requires annual payments of \$72,400 beginning January 2002 and continuing through January 2006. Uintah County has the option to purchase the equipment at the end of the lease for \$1.

The payments to be received in future years were discounted at 3% and the discounted value is reported in assets with an offsetting amount reported as deferred revenue. At December 31, 2005 the discounted balance due was \$70,291.

The government-wide financial statements recorded the entire discounted sale, less the depreciated value of the equipment, as gain on sale of capital assets in 2002. The discounted payments to be received in future years are reported as an asset in the statement of activities. Accrued interest at December 31, 2005 is included in receivables, \$2,028.

The mineral lease funds allotment for the 4th quarter 2005 was accrued as income and the account receivable is reported in both the government-wide and governmental funds financial statements. The total due, \$4,245,009, was received February 3, 2006.

5. RESTRICTED ASSETS

Restricted assets include cash & investments in the debt service sinking and reserve funds that are restricted for debt service by the respective bond resolutions. (See Note 7.)

Restricted assets also include project escrow accounts. The District has entered into agreements with the Utah Department of Transportation (UDOT) wherein UDOT provides engineering and administrative services incident to construction projects funded by federal highway grants. UDOT required the District to deposit the District's estimated share of project expenses in escrow accounts maintained by UDOT. UDOT pays project expenses, including reimbursements to UDOT for the costs of its services, from applicable federal highway funds and, for the District's share, from the escrow accounts. Any District funds remaining in an escrow account after all project expenses have been paid is to be refunded to the District.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

6. CAPITAL ASSETS

Changes in Capital Assets

The following table provides a summary of changes in capital assets:

	<u>Capital Assets, Not Depreciated</u>	<u>Capital Assets, Depreciated</u>	
	<u>Land</u>	<u>Furniture and Equipment</u>	<u>Totals</u>
Governmental Activities			
Balance, December 31, 2004	\$ 30,675	\$ 44,952	\$ 75,627
Increases	-	26,590	26,590
Decreases	-	(24,649)	(24,649)
Balance, December 31, 2005	30,675	46,893	77,568
Accumulated Depreciation			
Balance, December 31, 2004	-	39,934	39,934
Increases	-	4,533	4,533
Decreases	-	(24,649)	(24,649)
Balance, December 31, 2005	-	19,818	19,818
Governmental Activities			
Capital Assets, Net	<u>\$ 30,675</u>	<u>\$ 27,075</u>	<u>\$ 57,750</u>

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2005:

<u>Bond Issue</u>	<u>Balance 12/31/2004</u>	<u>Debt Issued</u>	<u>Debt Retired</u>	<u>Balance 12/31/2005</u>	<u>Due Within One Year</u>
1998A Mineral Lease Revenue Bonds (Naples)	\$ 299,000	\$ -	\$ 72,000	\$ 227,000	\$ 74,000
Road Bond Series 1999 (Ballard)	185,000	-	35,000	150,000	36,000
Road Bond Series 1999A (Oilfield Roads)	849,000	-	161,000	688,000	166,000
Total Bonded Debt	<u>\$ 1,333,000</u>	<u>\$ -</u>	<u>\$ 238,000</u>	<u>\$ 1,095,000</u>	<u>\$ 276,000</u>

The Road Bond Series 1998A was issued October 26, 1998, for \$695,530, bearing interest at 2.5% accruing from July 1, 1999, payable in ten annual payments beginning July 1, 1999. Bond proceeds were used for road construction (Naples City).

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

The Road Bond Series 1999 was issued March 10, 1999, for \$350,000, bearing interest at 2.5%, payable in ten annual payments beginning January 1, 2000. Bond proceeds were used for road construction (Ballard City).

The Road Bond Series 1999A was issued June 16, 1999, for \$1,600,000, bearing interest at 2.5%, payable in ten annual payments beginning January 1, 2000. Bond proceeds were used for road construction (oilfield roads).

All of the revenue bonds are payable from the District's allocation of federal mineral lease funds.

The annual debt service requirements to maturity for bonded debt as of December 31, 2005 are as follows:

Year Ended December 31,	Bond Principal	Interest	Total Debt Service
2006	276,000	26,625	302,625
2007	283,000	19,725	302,725
2008	289,000	12,650	301,650
2009	<u>217,000</u>	<u>5,425</u>	<u>222,425</u>
Totals	<u>\$1,065,000</u>	<u>\$ 64,425</u>	<u>\$1,129,425</u>

Sinking Fund Requirements

Each bond resolution requires the accumulation of funds in sinking funds and in reserve funds.

An amount equal to the bond principal and interest payment next due is to be paid in four approximately equal installments, due on the tenth day of each May, August, November and February into Sinking Funds. The money in the Sinking Funds may be used only to pay currently maturing principal and interest on the Bonds.

Quarterly payments are to be paid into Reserve Funds each February, May, August and November, until a specified amount is accumulated in the funds. Money in the Reserve Fund may be used only to pay principal and interest on the bond, payable from the sinking fund, falling due at any time, for the payment of which there is insufficient money in the sinking funds. Amounts accumulated in excess of the specified amounts are to be paid to the sinking funds annually.

Payments into reserve funds are required as follows:

**Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005**

Bond Series	Amount to be Accumulated	Payments to Begin	Quarterly Payment	Balance in Fund at December 31, 2005
1998A	79,918	Aug. 1999	4,440	79,918
1999	40,500	Aug. 1999	1,690	40,500
1999A	183,200	Aug. 1999	7,630	183,200
Total	\$ 303,618			\$ 303,618

As of December 31, 2005, \$337,233 and \$303,618 had been accumulated in the sinking funds and reserve funds respectively. Deposits in both sinking and reserve funds were equal to or greater than scheduled amounts as of December 31, 2005.

8. PENSION PLANS

Plan Description. The District contributes to the Local Governmental Noncontributory Retirement System which is a cost sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1(800) 365-8772.

Funding Policy. In the Local Governmental Noncontributory Retirement System, the District was required to contribute 11.09% of its annual covered salaries for the six months ended June 30, 2005 and 11.09% for the six months ended December 31, 2005. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District contributions to the Local Governmental Noncontributory Retirement System for the years ended December 31, 2005, December 31, 2004, and December 31, 2003 respectively were: \$4,532, \$3,999, and \$3,013. The contributions were equal to the required contributions for each year.

The District also participates in a 401(k) deferred compensation plan administered by the

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

Utah Retirement Systems. Employer contributions for the year ended December 31, 2005 totaled \$2,452.

9. INSURANCE AND RISK MANAGEMENT

The District carries insurance against damage to its property by fire or other perils.

Workman's' Compensation insurance is provided to District employees to cover job related injuries or sickness.

The District carries a Commercial Crime - Public Employee Dishonesty Policy to insure against theft or dishonesty by its employees.

A fidelity bond is carried on the District's treasurer and records clerk.

The District's automobiles are insured against liability and property damage.

The District's directors and employees are insured against liability due to public official's errors and omissions.

10. TRANSFERS WITHIN THE REPORTING ENTITY

The capital projects fund transferred \$302,525 to the debt service fund to meet debt service requirements for 2005. Mineral lease fund revenues recorded in the capital projects fund are pledged to pay the revenue bonds as they become due.

11. CONTINGENCIES

A former employee of Uintah Special Service District has filed a claim asserting the District wrongfully terminated the former employee's employment with the District, and is claiming damages as a result of the termination. District management intends to vigorously defend any suit, which may be filed in the matter. No estimate has been made of the likelihood of a favorable or unfavorable outcome, nor of the amount or range, if any, of potential loss.

A construction contractor has filed a complaint claiming damages from breach of contract and related matters. District management intends to vigorously defend the suit. No estimate has been made of the likelihood of a favorable or unfavorable outcome, nor of the amount or range, if any, of potential loss.

A second construction contractor has indicated it plans to sue the District for the increased costs of performing its contract, arguing that the grade of material required by the District exceeded the grade of material specified in the contract. No claim has yet been filed. No estimate has been made

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

of the likelihood of a favorable or unfavorable outcome, nor of the amount or range, if any, of potential loss.

11. COMMITMENTS

Construction Contracts

Active construction and engineering contracts in progress is composed of the following:

	<u>Spent to December 31, 2005</u>	<u>Remaining Commitment</u>
Government Activities:		
9750 E (Lapoint)	\$ 37,061	\$ 65,461
Ballard Resurfacing Project	-	22,350
Bridge Replacement (Duchesne River)	42,000	18,000
2500 West Project	137,750	7,250
500 N 1500 E Bridge Replacement	25,637	102,547
1500 / 3500 W	1,218,991	19,692
Stanton Road	7,128	33,422
3500 E (West Side)	25,000	132,820
Pariette Dug way	30,000	13,830
Naples Industrial Park	25,000	56,220
Fidlar Road	92,963	422,137
Mountain Fuel Loop Road	39,996	195,954
500 / 1500 West Project	32,211	132,569
05 County-wide Chip Seal	1,289,018	5,855
Steinaker Service Canal Bridges	168,703	48,475
Willow Creek Bridges	39,046	130,884
Lapoint to Gusher Highway	2,356,306	46,597
		<u>\$ 1,454,063</u>

Lease Agreements

The District leases its office facility under an operating lease. The agreement is for a period of one year beginning July 1, 2005 and requires monthly rental payments of \$700. As of December 31, 2005 the remaining rents to be paid under the agreement totaled \$4,200. Rental payments for the year ended December 31, 2005 totaled \$8,400.

Uintah Special Service District
Notes to the Financial Statements
For the year ended December 31, 2005

13. RELATED PARTY TRANSACTIONS

Uintah Special Service District provides road construction services in Uintah County on roads owned by Uintah County or cities within the County. Projects are selected by the District's Administrative Control Board from a prioritized list of potential projects submitted to the Board by Uintah County. Transactions between the District and Uintah County for the year ended December 31, 2005 are summarized as follows:

The District Received Income:

Lease-purchase of construction equipment (see note 4)	\$ 72,400
Sold 1998 Dodge Pickup Truck	<u>3,000</u>
	<u>\$ 75,400</u>

The District Paid or Accrued Expense for:

T-1 communications line	<u>\$ 88</u>
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At December 31, 2005 the balance due from Uintah County totaled \$70,291 for future lease-purchase payments (see note 4).

UINTAH SPECIAL SERVICE DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance -- Budget and Actual
General Fund
Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Intergovernmental				
Mineral Lease Funds	\$ 188,950	\$ 188,950	\$ 175,000	\$ (13,950)
Interest Income	250	250	-	(250)
Miscellaneous	-	-	29	29
Total revenues	<u>189,200</u>	<u>189,200</u>	<u>175,029</u>	<u>(14,171)</u>
Expenditures:				
Current				
Highways & public improvements				
Compensation & benefits	81,000	81,000	81,757	(757)
Insurance	18,000	18,000	15,883	2,117
Membership dues	6,500	6,500	8,812	(2,312)
Miscellaneous	5,250	5,250	1,539	3,711
Occupancy	11,400	11,400	10,716	684
Office expenses	7,050	7,050	10,293	(3,243)
Professional fees	25,000	25,000	12,553	12,447
Capital outlay	35,000	35,000	26,590	8,410
Total expenditures	<u>189,200</u>	<u>189,200</u>	<u>168,143</u>	<u>21,057</u>
Excess (deficiency) of revenues over				
(under) expenditures	<u>-</u>	<u>-</u>	<u>6,886</u>	<u>6,886</u>
Other financing sources (uses):				
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	6,886	6,886
Fund balances - beginning	<u>19,286</u>	<u>19,286</u>	<u>19,286</u>	<u>-</u>
Fund balances - ending	<u>\$ 19,286</u>	<u>\$ 19,286</u>	<u>\$ 26,172</u>	<u>\$ 6,886</u>

The notes to the financial statements are an integral part of this statement.

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Administrative Control Board
Uintah Special Service District
Vernal, Utah

We have audited the accompanying financial statements of the governmental activities, and each major fund of Uintah Special Service District, a component unit of Uintah County, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 7, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Uintah Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of Uintah Special Service District in the accompanying schedule of Auditors' Findings and Recommendations.

As part of obtaining reasonable assurance about whether Uintah Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Administrative Control Board, management, others within the organization, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Caldwell Beach 4 Feb 48

29

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Administrative Control Board
Uintah Special Service District
Vernal, Utah

We have audited the financial statements of the governmental activities, and each major fund of Uintah Special Service District, a component unit of Uintah County, as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 7, 2006. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance programs from the State of Utah:

Mineral Lease Distribution (Department of Transportation)
Federal Highway Funds Projects Administered by the State (Department of Transportation)

Our audit also included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts

The management of Uintah Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and

Uintah Special Service District
Auditor's Report on State Compliance (continued)

perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of Auditors' Findings and Recommendations.

In our opinion, Uintah Special Service District complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

Caldwell Coombs & Fry LLP

Vernal, Utah
June 7, 2006

Uintah Special Service District
Auditors' Findings and Recommendations
For the Year Ended December 31, 2005

COMPLIANCE

05-1. Budget Resolution

Finding – We noted that budgets were adopted by a motion and vote of the administrative control board; however no resolution was adopted.

Criteria – Section 17A-1-417 of the *Utah Code* states that the governing body shall by resolution adopt a budget for the ensuing fiscal year for each fund for which a budget is required.

Effect – The District's procedures for adopting budgets did not completely comply with the statute.

Recommendation – The Administrative Control Board should add the formality of a budget resolution to its budget adoption procedures.

District Response – The recommendation is noted. Resolutions will be used for adopting all future budgets.

INTERNAL CONTROL

05-2. Verification of Information on Payment Requests

Finding – We noted one instance where a contractor's payment request incorrectly reported amounts previously paid by the District in determining the balance due on the contract, which resulted in an overpayment to the contractor.

Recommendation – The executive office manager should verify the amounts shown for previous payments on contractor payment requests by reference to the District's accounting records. This is particularly important on final payment requests.

District Response -- The recommendation is noted. We will implement a review procedure.

Uintah Special Service District
Status of Prior Year Findings
For the Year Ended December 31, 2005

The following matters were reported as audit findings in the prior year. The current status of each finding and recommendation are noted.

COMPLIANCE

04-1. Personnel Policies

Finding – The District's Personnel Policy does not include all the matters required by State Law, and has not been reviewed and updated annually.

Recommendation – The Administrative Control Board should review its personnel policy and update it to address the matters specified by State Law, plus any additional matters specific to the needs of the District. The Board may wish to specify a meeting wherein the personnel policy will be reviewed annually as required.

Current Status – The recommendation was implemented.

04-2. Purchasing Policies

Finding – We were not able to find an appeals procedure in the District's purchasing policy.

Recommendation – The Administrative Control Board should review its purchasing policies to insure that they meet the current needs of the District and comply with State Law.

Current Status – The recommendation was implemented.